

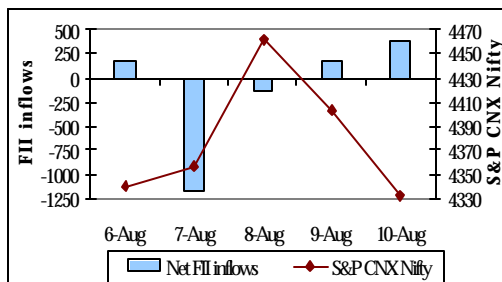
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Highlights

- ◆ **Markets go further weak**
- ◆ **Extreme volatility in store**
- ◆ **Bond yields at 1 -month peak**
- ◆ **Returns on short-term funds likely to improve**

FII movement relative to Nifty



FII inflows in Rs. Crores

Source: NSE, SEBI

Weekly FII transactions (equities)

	Aug 6 to Aug 10	July 30 to Aug 3
Gross purchases	12580.9	15925.7
Gross sales	13105.5	18266.1
Net inflows	-524.6	-2340.4

Amt in Rs. crores

Data source: SEBI

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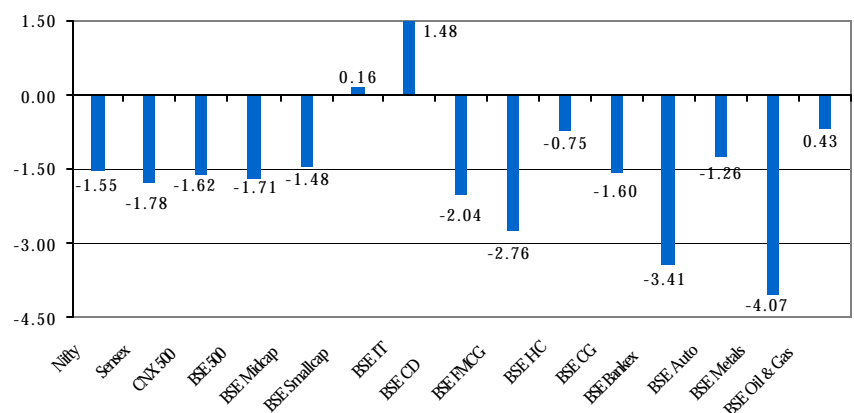
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The week in retrospect-Equities

The markets once again, acting on cues from the weak global markets, ended the week on a negative note. While Sensex lost nearly 270 points to settle at 14868.25, Nifty declined by around 68 points to close at 4333.35 mark. On Monday, markets opened on a bleak note triggered by weak U.S. economic data (released on Aug 3, 07). On Tuesday, U.S. kept its interest rate unchanged at 5.25%, which instilled positive sentiments in the market. On the same day, the government put a cap on the overseas borrowings by corporates at USD 20 mn. in an attempt to check the strengthening rupee against dollar. Resultantly, significant buying in IT stocks (on expectations of improved margins as rupee weakened) led the rally on Wednesday. On Thursday, markets slumped back tracking weak European markets as BNP Paribas froze three of its funds due to the effect of weak U.S. sub-prime mortgage market. Profit booking at higher levels also pulled the markets down. On the sectoral front, BSE IT was the only sectoral index which ended the week on a positive note. BSE Metals lost 4.07% tracking weak trend on London Metal Exchange Banking stocks witnessed alternate bouts of buying and selling. While banks are expected to be impacted by the U.S. sub-prime mortgage defaults, they are expected to benefit out of the tighter norms for overseas commercial borrowings (ECB).

During the week, FIIs remained net sellers in the equity market, amounting to Rs.524.60 crores. Mutual funds, however, emerged as net buyers in equities to the tune of Rs.465.30 crores.

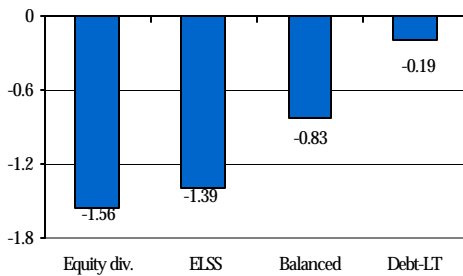
Weekly Equity Indices Return (absolute %)



As on Aug 10

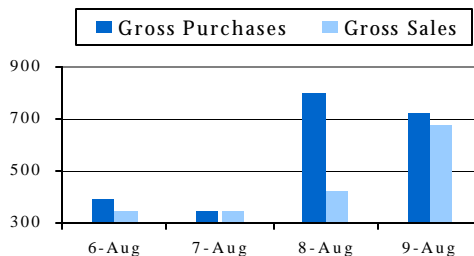
Datasource: BSE, NSE

Weekly category returns (%)



Abs. returns as on Aug 10 Datasource: Bloomberg

Weekly MF transactions (equities)



Amt in Rs. crores

Data source: SEBI

In the equity market, mutual funds emerged as net buyers to the tune of Rs. 465.30 crores.

Outlook:

Short-term: Markets may continue to take cues from the global trends. On the back of worries over weakening U.S. sub-prime market and hence slowdown in global credit market, FIIs have emerged as net sellers in equity market. Concerns over domestic liquidity therefore remain a watch-out factor. With crude oil trading at above \$70 per barrel, any sharp increase in the same may weaken market sentiments. Another factor to look out for is Yen/\$ rate. Yen has significantly appreciated against dollar (down from 124/\$ in July to around 118/\$ as on Aug 10). Further unwinding of yen carry trade could weaken the sentiments. All eyes are set on the Aug 23 BoJ meet.

Long-term: Slowdown in global credit market and worries over slowdown of the biggest economy of the world has triggered global sell-offs and increase in foreign outflows. However, this impact may be short-lived since the Indian economy, with its strong fundamentals, is largely driven by domestic consumption and hence the long-term story remains bullish. Robust corporate earnings, high infrastructure spending, retail sector growth and real-estate boom would support the growth. The industrial output for the month of June, 07 is reported to have grown by a strong 10.6% over the previous year.

Recommended schemes to invest		Historical returns as on Aug 10 (%)			Crisil Ranking*
		6 months (abs)	1 year	3 year (ann)	
Aggressive (Equity)	DSP ML Small & Mid	5.50	N.A.	N.A.	-
	DSP ML T.I.G.E.R	11.40	54.69	53.54	1
	ICICI Pru Services	6.37	62.39	N.A.	-
	Reliance Equity Oppor.	3.19	36.45	N.A.	3
Moderate (Equity)	Fidelity Equity	9.45	48.60	N.A.	-
	ICICI Pru Dynamic	3.65	39.79	57.08	1
	DSP ML Equity	10.69	46.44	52.61	1
	Fidelity Ind. Special.	5.33	42.72	N.A.	-
Conservative (Equity)	DSP ML Top 100	8.41	41.34	45.72	1
	HSBC Equity	4.51	36.45	40.05	3
	Franklin India Bluechip	5.16	37.68	42.10	4
	Templeton India Eq. Inc.	8.40	39.85	N.A.	-
ELSS	Franklin India Taxshield	6.37	32.48	40.21	3
	Fidelity Tax Advantage	10.36	44.43	N.A.	-
	SBI Magnum Tax Gain	5.05	41.97	67.22	2
Balanced	DSP ML Balanced	8.38	31.67	32.53	1
	HDFC Prudence	8.51	36.32	40.52	2
	FT India Balanced	6.61	33.03	31.16	2

*For qtr end June, 07

Datasource: Bloomberg

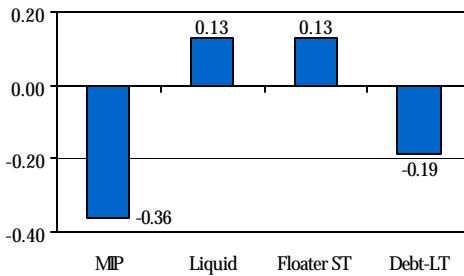
Note: Fund classification is based on portfolio concentration & exposure to market segments.

Recommendations

Fresh investments: Given the cautious sentiment prevailing in the market, lump sum investors can adopt a deferred investment approach to pick funds at lower NAVs. Selective investment is important at this juncture and therefore a fund's portfolio & holdings should be a key factor in its selection. Diversified, contra and opportunities funds could form the core portfolio. Midcap and thematic funds could be added to the portfolio to generate additional returns. SIP investors can continue with their investments as we reiterate our bullish view on markets over the long term.

Existing investments: We reiterate our long-term bullish view on the markets. Hence, we suggest continuing with the existing holdings with a long-term perspective. However, one needs to be particular about the schemes in the portfolio.

Weekly category returns (%)

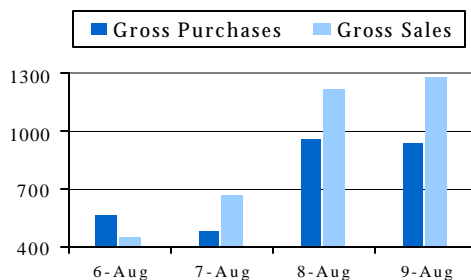


Abs. returns as on Aug 10 Datasource: Bloomberg

Key statistics

	Aug 10	Aug 3
7.49% GOI 2017 yield	7.98%	7.85%
Call rate	6.30%	2.25%
WPI inflation (week ending Jul 28 and Jul 21)	4.45%	4.36%
Dollar exchange rate	40.64	40.35
Forex reserves (\$ bn)	229.342 (Aug 3)	225.350 (Jul 27)

Weekly MF transactions (debt)



Amt in Rs. crores

Data source: SEBI

In debt market, mutual funds emerged as net sellers to the tune of Rs.669.30 crores.

The week in retrospect-Debt

The bond yields edged up further on the back of global credit worries due to the slowdown in U.S. sub-prime market, tighter liquidity condition in the domestic bond market and higher inflation figure. The 10-year bond yield closed at 7.98% against 7.85% the previous week. Call rates went from their low levels of 2.25% to more than 6% as an after effect of CRR hike and the removal of ceiling on daily reverse repo auctions. Worries over drain out of cash from the system were further fuelled by the tighter rules on ECB which put a cap on overseas borrowings at USD 20 mn. On Wednesday, RBI sold Rs.40 bn worth of Market Stabilisation Scheme bonds and Rs.35 bn worth of T-bills in order to check the liquidity. Inflation increased marginally to 4.45% for the week ending July 28 from 4.36% due to increase in prices of food items and manufactured products. The week witnessed the rupee to slide against the dollar and close at 40.64 against 40.35 last week on worries that risk aversion due to the volatility in the global markets may trigger significant foreign outflows.

Outlook:

Short-term: On Thursday, RBI would auction Rs.40 bn worth of MSS bonds and Rs.40 bn worth of T-bills. On the same day, state governments are expected to sell bonds worth Rs.33.34 bn. With the recent RBI monetary tightening measures in the backdrop, the forthcoming auctions would keep the liquidity under check. At the same time, banks would step up to meet their statutory requirements, which may cause a slight fall in bond yields in the coming week. As yields on short-term papers have improved, returns on short-term funds and FMPs would improve marginally.

Long-term: With 50 bps hike in CRR, RBI has tried to address the issue of high deposits rate (24.4%) and money supply (21%) which is still above the comfort level. Though inflation has been in the 4%-5% range, RBI continues to maintain a cautious stand on the same. The question whether interest rates have peaked out or not will be answered by developments in these watch out factors.

Recommended schemes to invest		Return as on Aug 10 (%)			Expense ratio	Crisil ranking
		1 m	3 m	1 yr.		
Liquid plus	HSBC Liquid Plus	0.62	1.98	N.A.	0.65	-
Liquid	LIC MF Liquid	0.48	1.74	7.82	0.50	3
	Canliquid Retail	0.50	1.70	7.46	0.23	-
Arbitrage	StanChart Arbitrage	0.73	2.05	N.A.	--	-

For qtr end June, 07

Datasource: Bloomberg

Recommendations:

Short-term investors: Very short-term investors should invest in liquid funds. Liquid Plus funds and short-term floater funds are recommended (due to their tax efficiency) for investors who are looking for investment duration of around 15 days to 1 month. Arbitrage funds are recommended for investors with investment duration of 6 months-1 year due to their equity-oriented tax treatment. Other investors for whom instant liquidity is not an issue, FMPs (shorter duration) can be considered as the yields are quite attractive.

Long-term investors: Investors with a horizon of more than one year could consider FMPs (longer duration) in place of bank deposits due to FMP's favourable tax status which offers higher post-tax returns.

Forthcoming New Fund Offers:

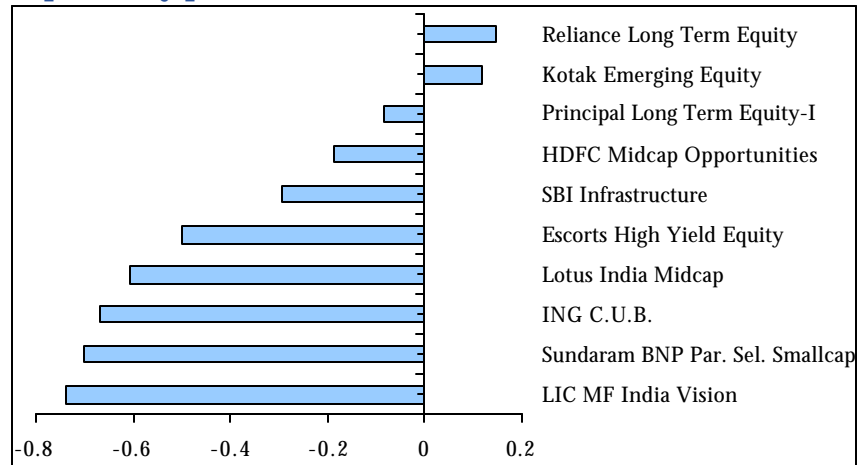
- ◆ ICICI Prudential is planning to launch ICICI Prudential Indo Asia Equity Fund. The open-ended fund would invest in Asian equities.
- ◆ Birla Sunlife AMC is planning to come up with Birla Sunlife International Equity Fund. The equity scheme would invest in both domestic and international markets.
- ◆ Tata AMC is launching Tata Global Infrastructure Fund. The 3-year close-ended equity fund would invest in both domestic and overseas companies, which are related with infrastructure sector.
- ◆ JM Fund House is planning to launch JM Agri & Infra Fund. The 3-year close-ended equity scheme would invest in companies that focus on agricultural and infrastructure development of India.
- ◆ Sundaram BNP Paribas AMC has filed offer documents for two thematic funds which would invest in the entertainment and energy industries respectively.

NFO Corner

NFOs open for subscription:

- ◆ JM Fund House has come up with JM Contra Fund. The open-ended equity fund would be open for subscription till Aug 14, 07.
- ◆ DSP ML Fund House has launched DSP ML World Gold Fund which would invest predominantly in gold mining companies across the world. The open-ended fund is open for subscription till Aug 23, 07.
- ◆ Escorts Fund House has launched Escorts Infrastructure Fund. The NFO would be open till Aug 24, 07.
- ◆ Kotak Mahindra AMC has launched Kotak Global Emerging markets Fund. The 3-year close-ended equity fund would invest in emerging markets and would be open for subscription till Aug 24, 07.
- ◆ DWS MF has launched DWS Global Thematic Fund. It is a fund of fund which would invest in overseas mutual funds. The scheme is open for subscription till Aug 28, 07.
- ◆ HSBC AMC has launched HSBC Dynamic Fund, an open-ended equity fund. It would have the flexibility to shift 100% to debt instruments depending on market scenario. The NFO is open till Aug 30, 07.
- ◆ Principal AMC has launched Series 2 of its Principal Long-term Equity Fund. The NFO of the 3-year close-ended fund is open till Aug 31, 07.
- ◆ DBS Chola has come up with DBS Chola Infrastructure fund which would be available for subscription till Sep 6, 07.

Top weekly performers-NFOs*



* Weekly return (%) as on Aug 10, 07

Datasource: MFI Explorer

Note: Funds launched since Aug. 06 have been considered.

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